Illinois National Bank
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March 20, 2006

Board of Governors of the
Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

Attention: Ms. Jennifer J. Johnson, Secretary

Re: Docket No. OP-1248

Dear Ms. Johnson:

Illinois National Bank (INB) appreciates the opportunity to comment on the proposed interagency guidance entitled "Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices," issued on January 13, 2006, by the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of Thrift Supervision (collectively, the "Agencies").

INB is very concerned that the measures being proposed to address a perceived weakness in prudent commercial real estate loan oversight are excessive. The Agencies fully acknowledge that banks' underwriting standards today generally are stronger than those employed during previous commercial real estate cycles. Moreover, according to the recently published Federal Reserve Board Beige Book, Seventh District, dated January 18, 2006: **"Commercial credit quality was in good shape**, with a smaller share of non-accruing loans and charge-offs than earlier in the year. Contacts noted that competitive pressures in commercial lending persisted, but **they did not report a further easing in standards and terms** or a narrowing of interest rate spreads." (emphasis added) Nevertheless, the Agencies are proposing sweeping changes in the commercial real estate loan risk management practices and capital levels of banks. The new approach to loan portfolio management that has been called for will no doubt have the affect of pricing many community banks in Illinois out of the commercial real estate loan market. Such an outcome would be harmful not only to Illinois' community banks, but also to the communities in which they serve.

The Proposed Interagency Guidance Is Based on a Flawed Analysis of Risk Associated with Commercial Real Estate Loan Portfolios

The Agencies' analysis of commercial real estate loan portfolios under the proposed interagency guidance is flawed in two respects: (1) loans representing different types of credit risk are accorded the same treatment, and (2) the Agencies are given too much discretion in labeling a bank's commercial real estate loan portfolio a "concentration."

As to the first point, the proposed guidance incorrectly calls for the aggregation of all business loans secured by real estate mortgages for the purpose of determining whether a bank has a commercial loan concentration that warrants heightened monitoring. For example, a building improvement loan secured by a mortgage on a one-story, fully occupied office building would be aggregated with a loan secured by a golf course as well as a construction loan for a housing subdivision. Regardless of the varying levels of credit risk represented by these loans, the proposed guidance would require their aggregation and the resulting non-risk-weighted sum would determine the need for additional scrutiny of a bank's entire commercial real estate loan portfolio.

Secondly, the Agencies state that they may apply the proposed guidance "on a case-by-case basis to any institution that has had a sharp increase in [commercial real estate] lending over a short period of time or has a significant concentration in [commercial real estate] loans secured by a particular property type." The failure to define terms such as "sharp increase," "short period of time," and "significant concentration" leaves the door wide open for the Agencies to indiscriminately require banks to comply with the new and costly risk management guidelines outlined in the proposed guidance.

The Proposed Interagency Guidance Imposes Unduly Burdensome and Costly Risk Management Practices and Regulatory Capital Requirements

The proposed guidance sets out an extensive list of risk management principles that apply to institutions with commercial real estate loan concentrations. We acknowledge that, in some instances, the proposed interagency guidance provides helpful clarification of the Agencies' existing regulations and real estate, lending guidelines. For example, the discussion of the responsibility and role of a bank's board of directors is consistent with, and reinforces, current guidelines. However, the Agencies' proposal also goes far beyond their existing guidelines, and INB is especially concerned with its call for increased levels of regulatory capital, as well as its introduction of new commercial loan monitoring techniques requiring the creation of a "management information system" and "portfolio stress testing."

For instance, the proposed guidance warns that "minimum levels of regulatory capital do not provide institutions with sufficient buffer to absorb unexpected losses arising from loan concentrations." The Agencies fail to provide a concrete explanation of how they intend to implement this admonition, making it impossible for banks to gauge the impact of the proposal on their regulatory capital. Given the potential broad application of the guidance, it is certain to have a chilling effect on community banks' commercial real estate lending.

As to the proposed "management information system" and "portfolio stress testing" techniques, while the goal of accurate risk measurement and analysis is certainly important, most banks already consider comparable information as part of their safe and sound commercial real estate lending programs. The Agencies' proposal would impose new and elaborate steps best reserved for those institutions that require extensive remedial programs to shore up the safety and soundness of their commercial lending programs. Imposing such extensive information gathering, analysis and reporting requirements on all banks, regardless of whether their commercial lending program raises any concerns, may very well sound the death knell for many community banks' commercial real estate lending activities.

For the above reasons, INB strongly opposes the proposed interagency guidance. Again, we appreciate your consideration of our comments.

Sincerely,

Richard K. McCord
President & CEO
Illinois National Bank

Brett M. Tiemann
Senior Vice President & CFO
Illinois National Bank